

Message Text

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ORIGIN EB-11

INFO OCT-01 EUR-25 IO-14 ISO-00 FRB-03 OMB-01 TAR-02 SP-03

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SUBJECT: WP/FA AD HOC MEETING ON UNCTAD DEBT GROUP

REFS: (A) OECD PARIS 20828; (B) GENEVA 5449

1. THE FOLLOWING IS A SUMMARY OF THE U.S. POSITION ON ISSUES TO BE DISCUSSED AT THE WP/FA AD HOC MEETING, SEPTEMBER 13-14, REGARDING FUTURE DISCUSSIONS WITH THE UNCTAD DEBT GROUP.

2. UNITED STATES POSITION:

(A) DEBT INDICATORS - IT IS DIFFICULT TO RELY COMPLETELY ON OBJECTIVE INDICATORS TO ASSESS A COUNTRY'S DEBT SERVICING CAPACITY. BECAUSE THERE IS NO GENERALLY ACCEPTED THEORY ON LDC DEBT PROBLEMS, CRITICAL VALUES HAVE NOT BEEN DETERMINED
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NOR HAVE INDICATORS BEEN WEIGHTED AS TO THEIR IMPORTANCE.

YET CERTAIN FACTORS DO AFFECT SERVICING CAPACITY AND CAN SERVE AS "PRESUMPTIVE" INDICATORS TO SIGNAL THAT MORE DETAILED ANALYSIS OF A COUNTRY'S SITUATION IS CALLED FOR. A RECENT OECD SECRETARIAT STUDY ON LDC DEBT PROBLEMS REVIEWS SEVERAL SUCH INDICATORS AND WE WOULD LIKE TO SEE MORE ANALYTICAL WORK DONE ON THIS SUBJECT. THIS STUDY HAS BEEN FORWARDED TO UNCTAD, AND WE HOPE IT WILL BE GIVEN CONSIDERABLE ATTENTION AT THE DECEMBER MEETING. WE BELIEVE THE UNCTAD SECRETARIAT HAS BEEN WRONG TO RELATE DEBT SERVICING CAPACITY ONLY TO FOREIGN EXCHANGE AVAILABLE AFTER DEVELOPMENT NEEDS ARE MET. WE ALSO BELIEVE IT ERRONEOUS FOR UNCTAD TO TREAT DEBT RELIEF AS AN INSTRUMENT OF AID TO BE GENERALLY EMPLOYED FOR THE PURPOSE OF SUBSTITUTING FOR OR SUPPLEMENTING ECONOMIC ASSISTANCE. THIS IS OF PARTICULAR CONCERN TO THE U.S. CONGRESS. CONGRESSIONAL CONCERN ABOUT DEBT RESCHEDULING MAY HAVE AN ADVERSE EFFECT ON OTHER AID PROGRAMS SINCE CONGRESS OPPOSES THE USE OF DEBT RELIEF AS BACK DOOR FINANCING OUTSIDE OF THE BUDGETARY PROCESS.

(B) MEASURES TO AVOID DEBT CRISES - THE DEVELOPING COUNTRIES THEMSELVES BEAR THE FUNDAMENTAL RESPONSIBILITY FOR THEIR DEBT MANAGEMENT. PROJECT EVALUATION AND COST BENEFIT PROBLEMS REQUIRE PARTICULAR ATTENTION. DAC COUNTRIES AND THE IFIS SHOULD MAKE TECHNICAL EXPERTISE AVAILABLE TO ASSIST DEBTORS WHO WISH TO IMPROVE INTERNAL MANAGEMENT. COLLECTION OF DATA ON AND SURVEILLANCE OF PRIVATE DEBT -- PARTICULARLY EUROCURRENCY LENDING -- REQUIRES PRIORITY ATTENTION AND MONITORING BY DEBTOR COUNTRIES.

(C) GUIDELINES - LDC DEBT SITUATIONS ARE VARIABLE AND COMPLEX. THEY DO NOT LEND THEMSELVES TO SIMPLE GENERALIZATIONS. FOR THIS REASON IT IS NOT REALISTIC AND HENCE NOT DESIRABLE TO ESTABLISH GENERAL GUIDELINES WHICH WOULD FORM THE BASIS FOR AUTOMATICALLY DETERMINING A COUNTRY'S ELIGIBILITY FOR DEBT RELIEF.

THE U.S. WISHES TO MINIMIZE THE INCIDENCE OF DEBT RESCHEDULING. SINCE WIDESPREAD DEBT RELIEF COULD DRY UP NEW CONFESSIONAL AND COMMERCIAL CREDITS TO MANY OF THE LDCS, WE ALSO BELIEVE THE RESTRICTION OF ITS USE TO EXCEPTIONAL UNCLASSIFIED

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CAREFULLY JUSTIFIED SITUATIONS IS TO THE LONG-RUN ADVANTAGE OF THE DEVELOPING COUNTRIES. YET WE RECOGNIZE THAT THERE ARE SOME BORROWERS WHO MAY NOT BE ABLE TO FORESTALL DEBT PROBLEMS. THE COUNTRIES THAT HAVE ENCOUNTERED SERIOUS DIFFICULTIES ARE RELATIVELY FEW IN NUMBER. EXISTING ARRANGEMENTS THROUGH WHICH CREDITORS HAVE BEEN ABLE TO AGREE ON APPROPRIATE RESPONSES TO INDIVIDUAL CIRCUMSTANCES HAVE WORKED REASONABLY WELL FOR THOSE COUNTRIES AND THE U.S.

DOES NOT BELIEVE THAT ADDITIONAL INSTITUTIONAL ARRANGEMENTS TO HANDLE SUCH CASES ARE NECESSARY OR APPROPRIATE AT THIS TIME.

(D) "PRIVATE" EXPERTS - THE U.S. HAS NO OBJECTION TO PRIVATE QUALIFIED EXPERTS PARTICIPATING IN THE DECEMBER UNCTAD MEETING PROVIDED THAT THE ATTENTION OF THESE EXPERTS FOCUSES ON A TECHNICAL ANALYSIS OF THE VARIOUS DEBT STUDIES TO BE PRESENTED RATHER THAN ON THE FORMULATION OF "SOLUTIONS" TO THE DEBT PROBLEM. TO INSURE THE SELECTION OF

PRIVATE EXPERTS IS APPROPRIATELY BALANCED, THE DAC MAY WISH TO REVIEW UNCTAD'S SUGGESTED LIST OF INVITEES BEFORE PROVIDING FULL CONCURRENCE.

(E) DAC INITIATIVES AT UNCTAD - U.S. ABILITY TO SUPPORT ANY DAC INITIATIVES TOWARD THE UNCTAD MEETING HAS TO BE VIEWED IN THE CONTEXT OF U.S. POLICY TO MINIMIZE THE INCIDENCE OF DEBT RELIEF. GIVEN THIS CONSTRAINT, IT IS UNLIKELY THAT THE U.S. WOULD BE ABLE TO SUPPORT A POSITION THAT WOULD SATISFY THOSE LDC OBJECTIVES WHICH WE BELIEVE WOULD ENCOURAGE REQUESTS FOR WIDESPREAD DEBT RELIEF. IN THIS REGARD WE BELIEVE IT ESSENTIAL NOT TO RAISE LDC EXPECTATIONS WHICH COULD NOT BE MET.

THE U.S. HOPES, HOWEVER, TO CONTINUE WORKING WITH THE LDCS TO DEFINE THE MANY COMPLEX COMPONENTS OF THE DEBT PROBLEM, AND WE ARE WILLING TO GIVE CONSTRUCTIVE ATTENTION TO ANY RECOMMENDATIONS THAT MAY EVOLVE FROM SUCH EFFORTS. KISSINGER

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